**DISCLOSURE OF PROPERTY, PLANT, AND EQUIPMENT**

A company must disclose the balances of its major classes of depreciable assets by nature or function.13 We show an example of each of these methods in Real Report 10-1. **Johnson &** **Johnson** discloses by the nature of the assets, such as land, buildings, and machinery. **Norfolk Southern** discloses by function, such as road and equipment.

Chapter 10 • Property, Plant, and Equipment: Acquisition and Disposal

**Real Report 10-1 Disclosures of Depreciable Assets**

**JOHNSON & JOHNSON AND SUBSIDIARIES**

*NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (in part)*

**Note 1. Summary of Accounting Principles (in part):**

**Property, Plant, and Equipment and Depreciation**

Property, plant, and equipment are stated at cost. The Company utilizes the straight-line method of depreciation over the estimated useful lives of the assets:

Building and building equipment 20–40 years

Land and leasehold improvements 10–20 years

Machinery and equipment 2–13 years

**Note 3 Property, Plant and Equipment (in part)**

At the end of 2007 and 2006, property, plant and equipment at cost and accumulated depreciation were:

**(*Dollars in Millions*) 2007 2006**

Land and land improvements $ 756 $ 611

Buildings and building equipment 7,913 7,347

Machinery and equipment 14,554 13,108

Construction in progress 3,243 2,962

 26,466 24,028

Less accumulated depreciation 12,281 10,984

 $ 14,185 $13,044

The Company capitalizes interest expense as part of the cost of construction of facilities and equipment. Interest expense capitalized in 2007, 2006 and 2005 was $130 million, $118 million and $111 million, respectively. Upon retirement or other disposal of fixed assets, the cost and related amount of accumulated depreciation or amortization are eliminated from the asset and accumulated depreciation accounts, respectively. The difference, if any, between the net asset value and the proceeds is adjusted to earnings.

**NORFOLK SOUTHERN CORPORATION AND SUBSIDIARIES**

*NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (in part)*

**Note 1. Summary of Significant Accounting Policies (in part):**

*Properties*: “Properties” are stated principally at cost and are depreciated using group depreciation. Rail is depreciated primarily on the basis of use measured by gross ton miles. Other properties are depreciated generally using the straight-line method over the lesser of estimated service or lease lives. NS capitalizes interest on major capital projects during the period of their construction. Depletion of natural resources is based on units of production. Depreciation in the Consolidated Statements of Cash Flows includes depreciation and depletion. Expenditures, including those on leased assets, that extend an asset’s useful life or increase its utility, are capitalized. Costs related to repairs and maintenance activities that do not extend an asset’s useful life or increase its utility are expensed when such repairs are performed. When properties other than land and non-rail assets are sold or retired in the ordinary course of business, the cost of the assets, net of sale proceeds or salvage, is charged to accumulated depreciation, and no gain or loss is recognized through income. Gains and losses on disposal of land and non-rail assets are included in “Other income-net” since such income is not a product of NS’ railroad operations. NS reviews the carrying amount of properties whenever events or changes in circumstances indicate that such carrying amount may not be recoverable based on future undiscounted cash flows. Assets that are deemed impaired as a result of such review are recorded at the lower of carrying amount or fair value.

**Note 5. Properties**

**December 31, Depreciation**

**($ in millions) 2007 2006 Rate for 2007**

Land $ 2,085 $ 2,082

Railway property:

Road 19,420 18,725 2.7%

Equipment 7,413 7,085 3.7%

Other property 471 471 2.3%

 29,389 28,363

Less: Accumulated depreciation (7,806) (7,265)

Net properties $21,583 $21,098

Railway property includes $504 million at Dec. 31, 2007 and $602 million at Dec. 31, 2006, of assets recorded pursuant to capital leases with accumulated amortization of $175 million and $192 million at Dec. 31, 2007 and 2006, respectively. Other property includes the costs of obtaining rights to natural resources of $337 million at Dec. 31, 2007 and 2006 with accumulated depletion of $172 million and $165 million at Dec. 31, 2007 and 2006, respectively. Total interest cost incurred on debt in 2007, 2006 and 2005 was $455 million, $489 million and $505 million respectively, of which $14 million, $13 million and $11 million was capitalized.